



# House Appropriations Committee VRS Overview

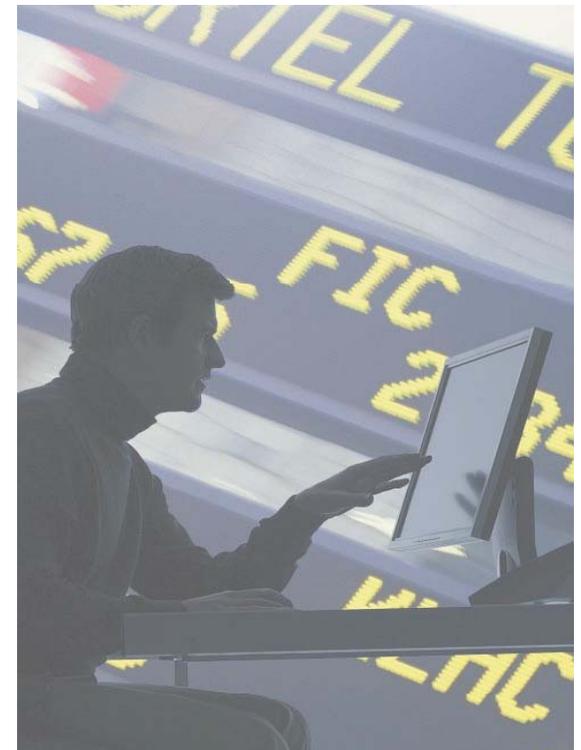
September 21, 2009



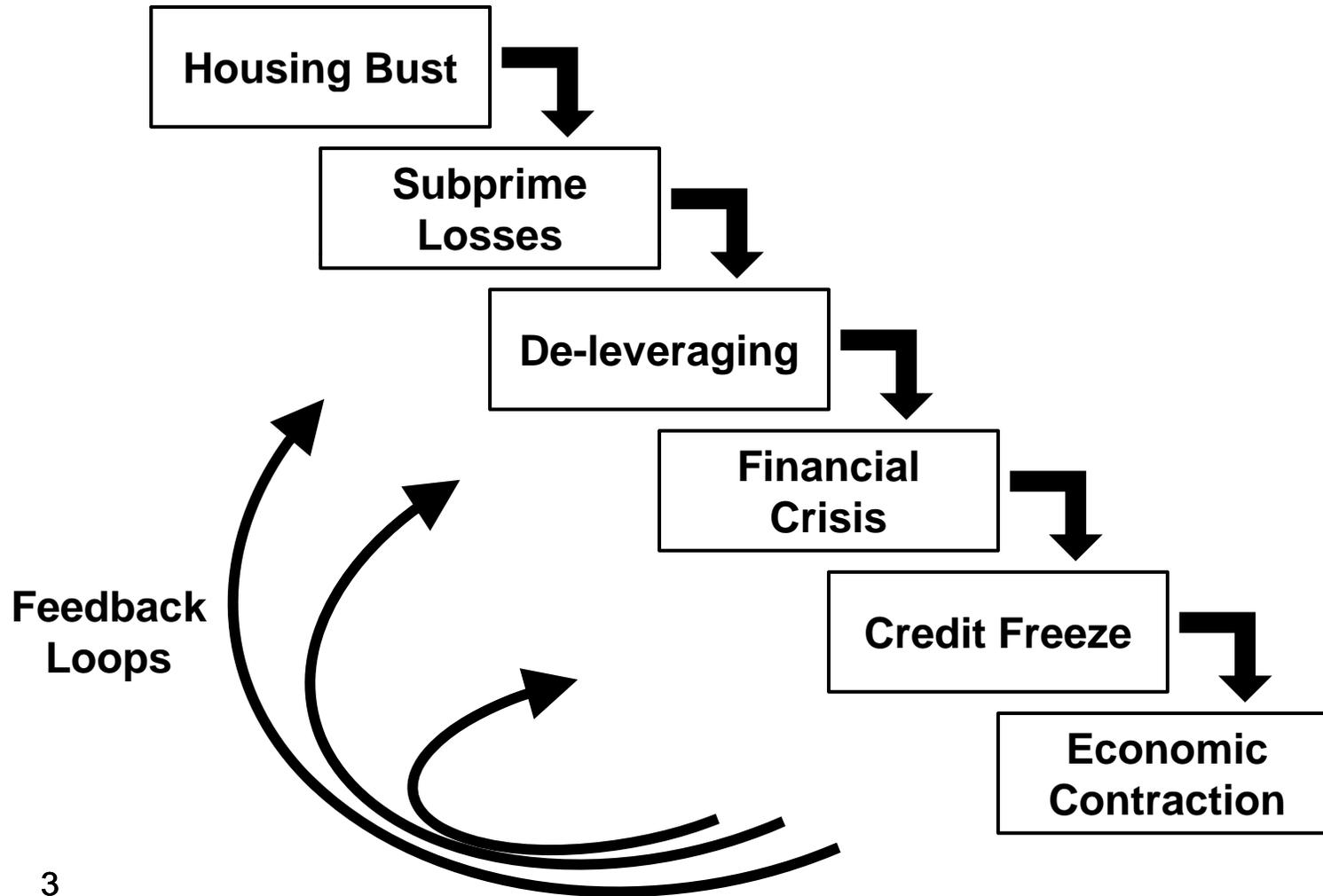
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# Investments

*Charles Grant*  
*Chief Investment Officer*

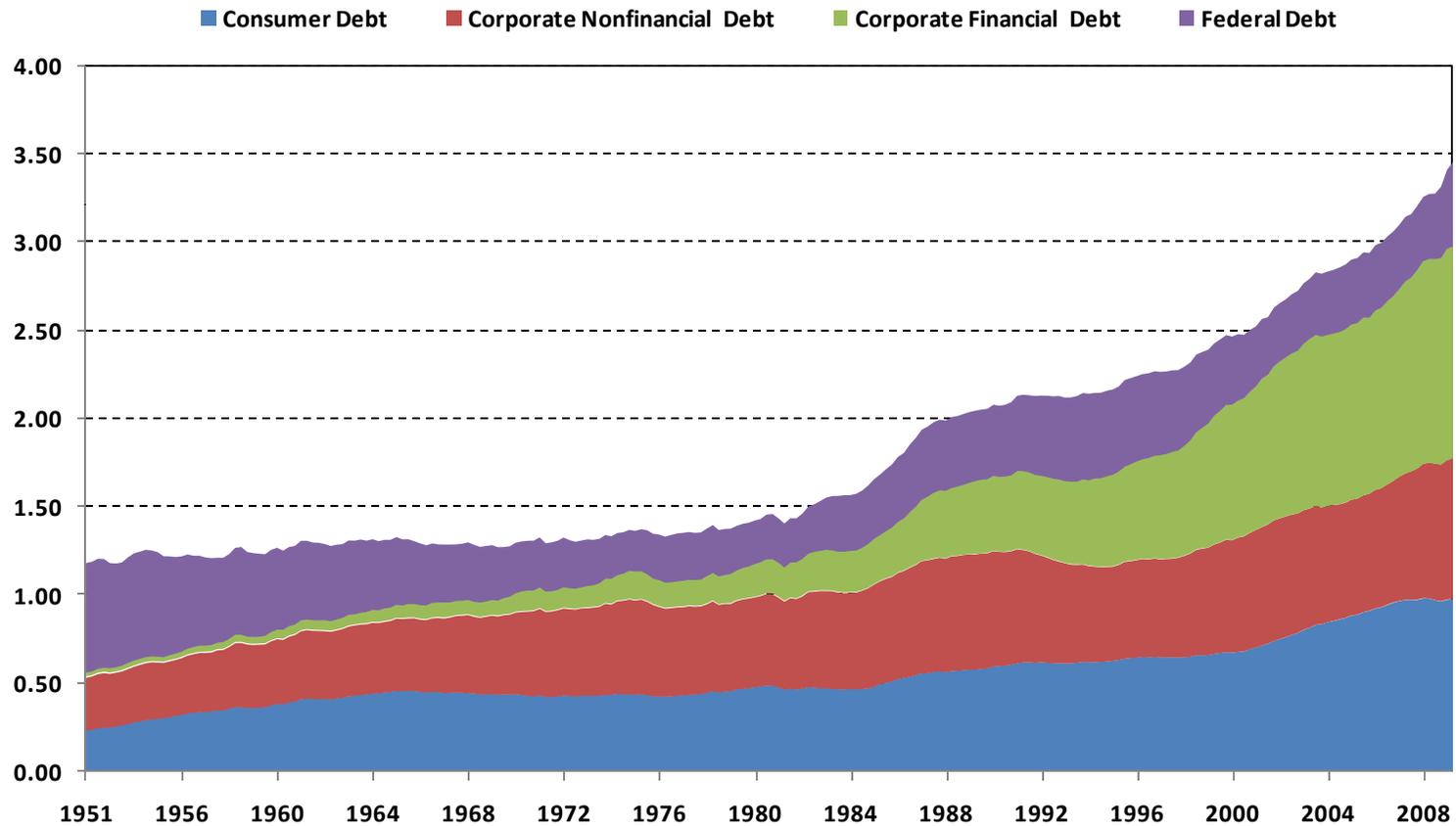


# Catalysts for "The Great Recession"



# Bigger Picture Problem: Too Much Debt

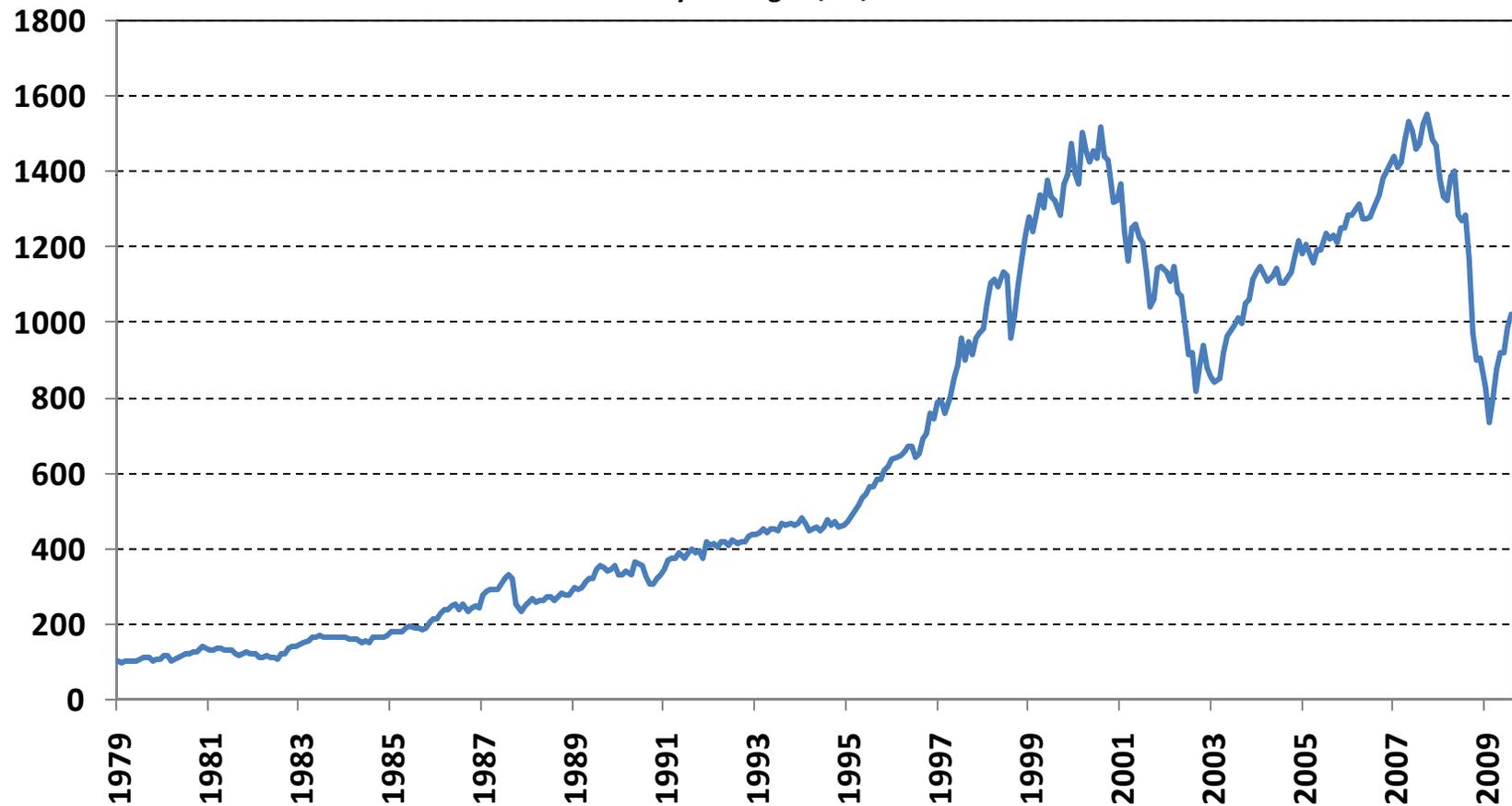
## Debt-to-GDP Ratios



Source: Flow of Funds, Bureau of Economic Analysis

# S&P 500 Index: 2 Bubbles in Last 10 Yrs

**S&P 500 Index Level**  
Monthly Through 8/31/2009

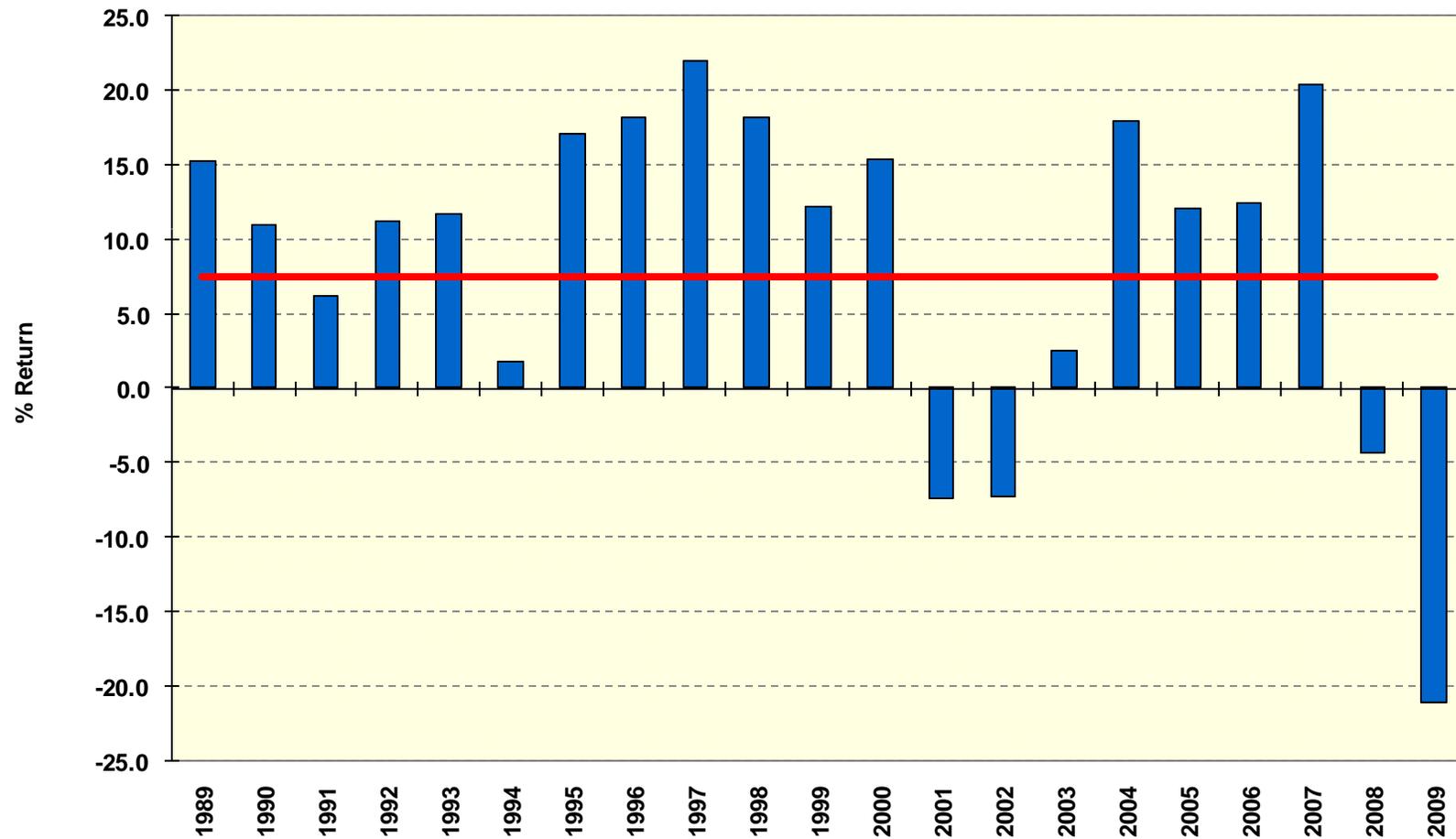


# Total Performance Ending 6/30/09\*

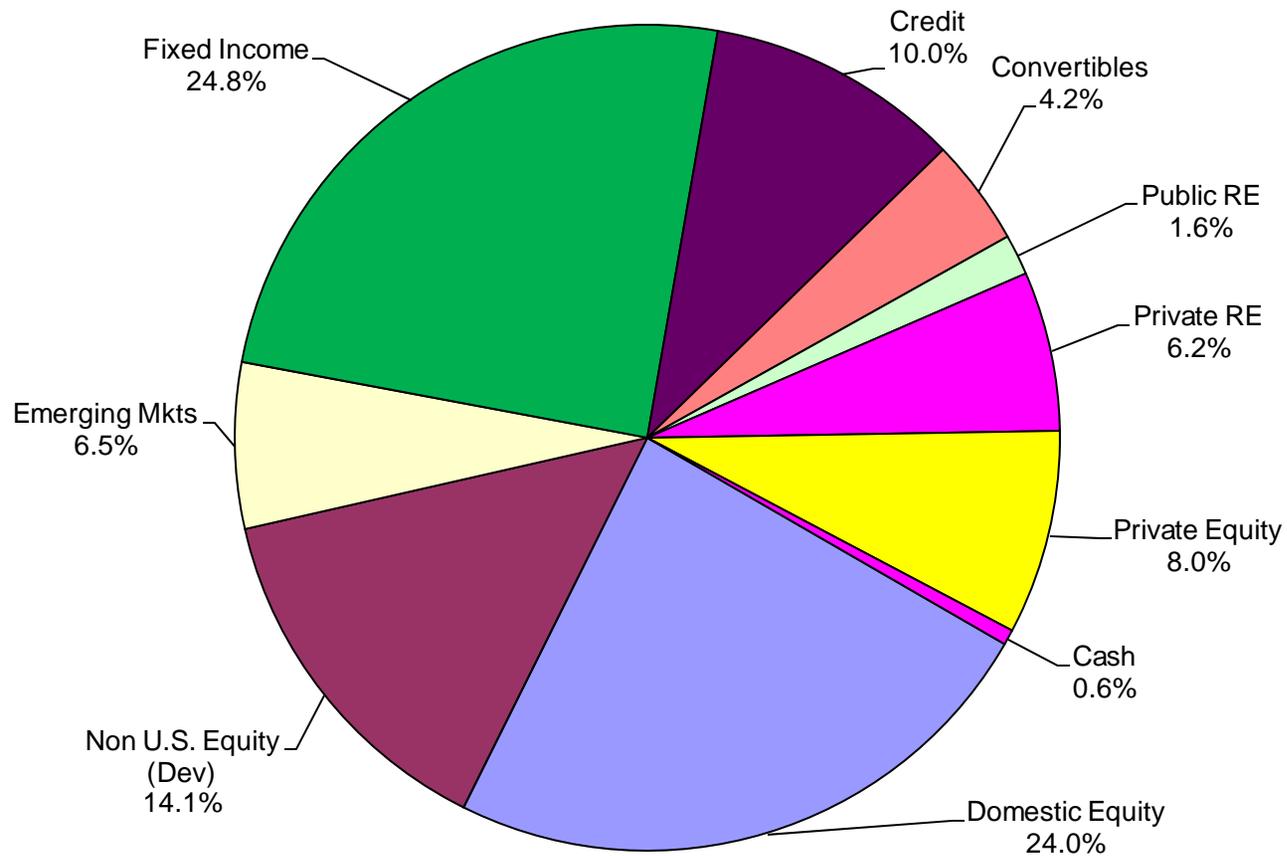
	VRS (%)	Benchmark (%)	Difference (%)
1 Yr	-21.06	-20.10	-0.96
3 Yr	-3.17	-3.56	0.39
5 Yr	2.71	2.04	0.67
10 Yr	3.18	2.36	0.82
15 Yr	7.73	7.17	0.56

\*Performance is net of fees

# VRS Fiscal Year Returns



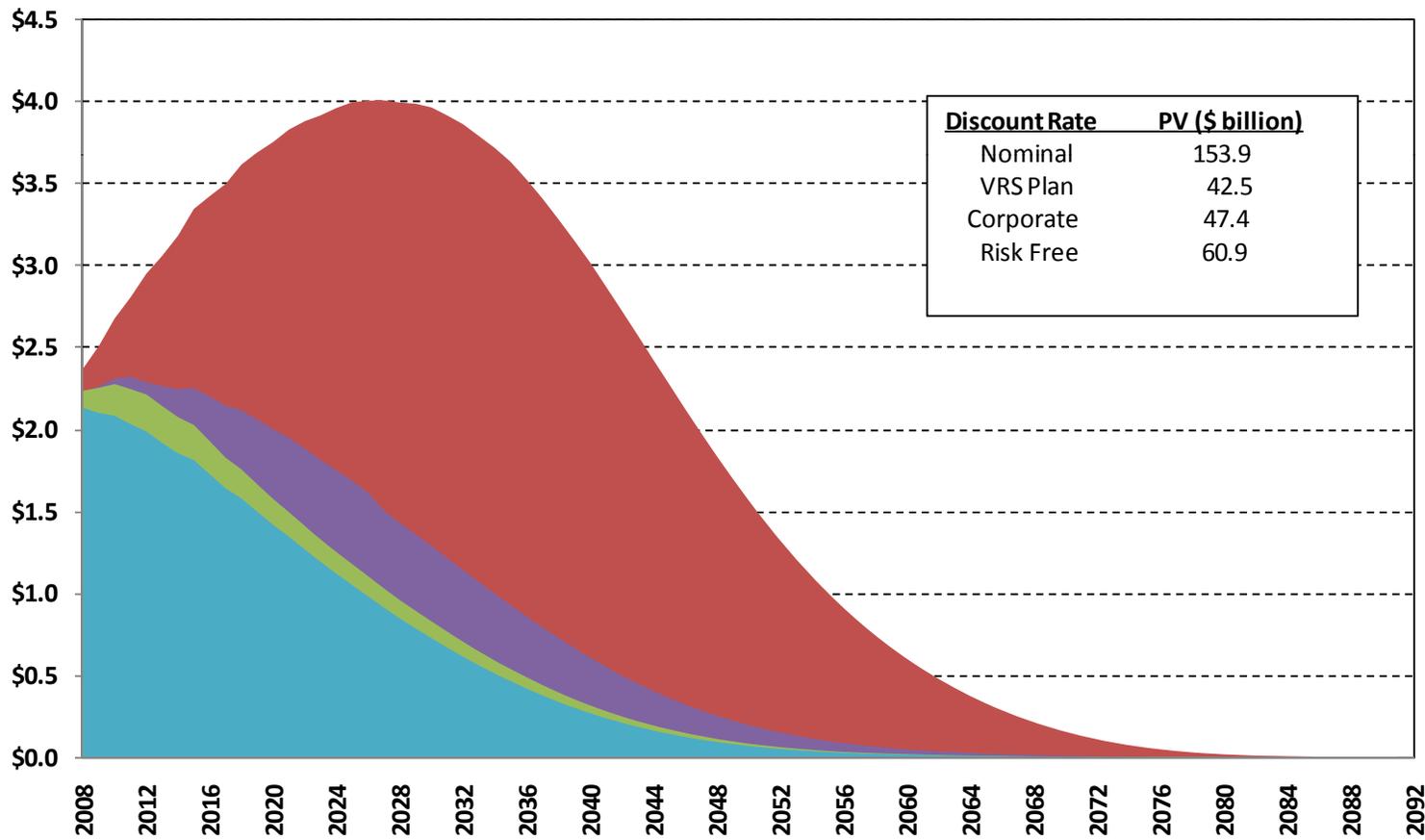
# Asset Allocation: As of 9/16/09



# Long-Term Liabilities Require Long-Term Investing

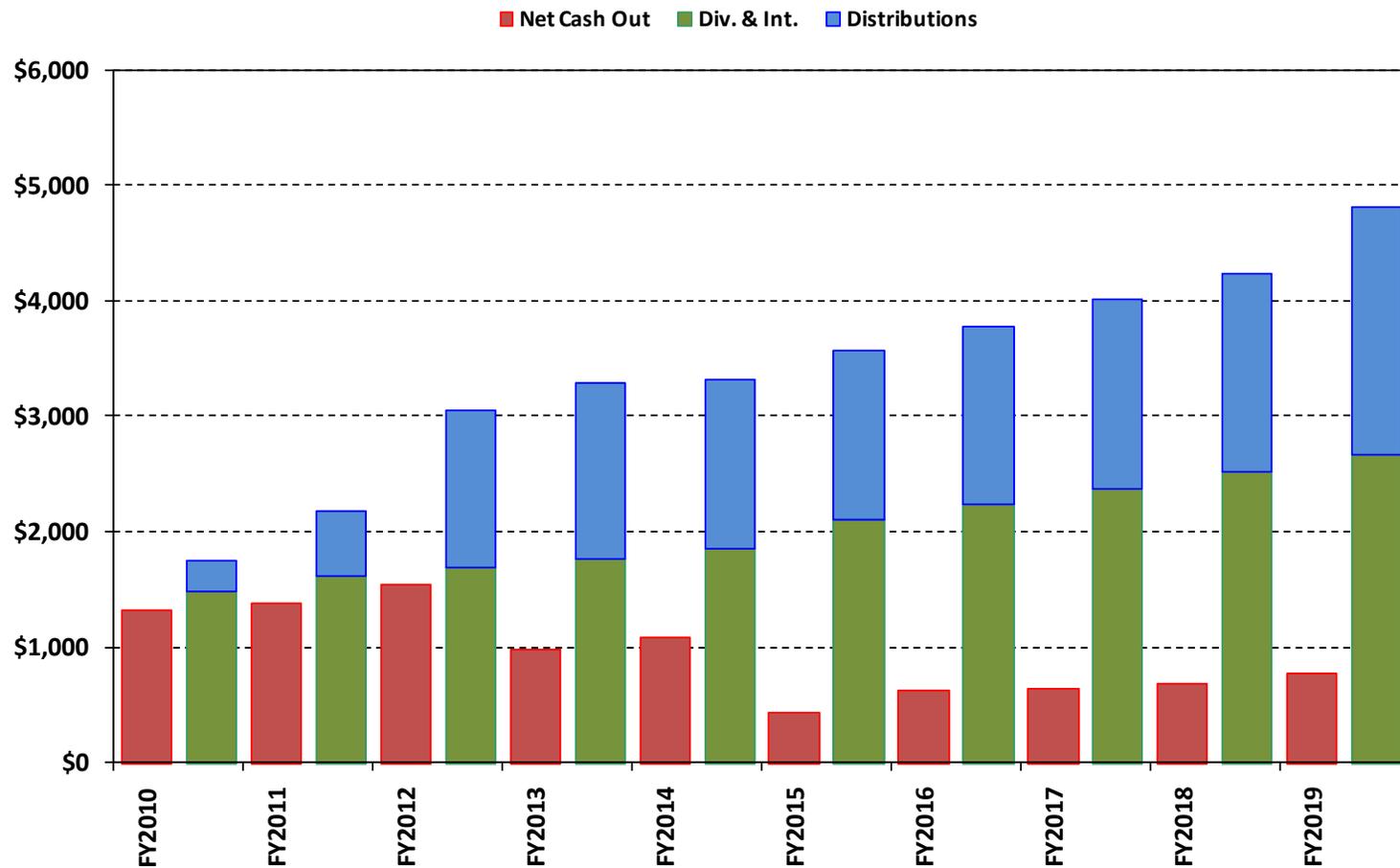
Total PBO as of June 30, 2008 - State Employees and Teachers

■ Nominal    ■ PV, Risk Free: 4.70%    ■ PV, Corporate Plan: 6.40%    ■ PV, Plan Return: 7.50%

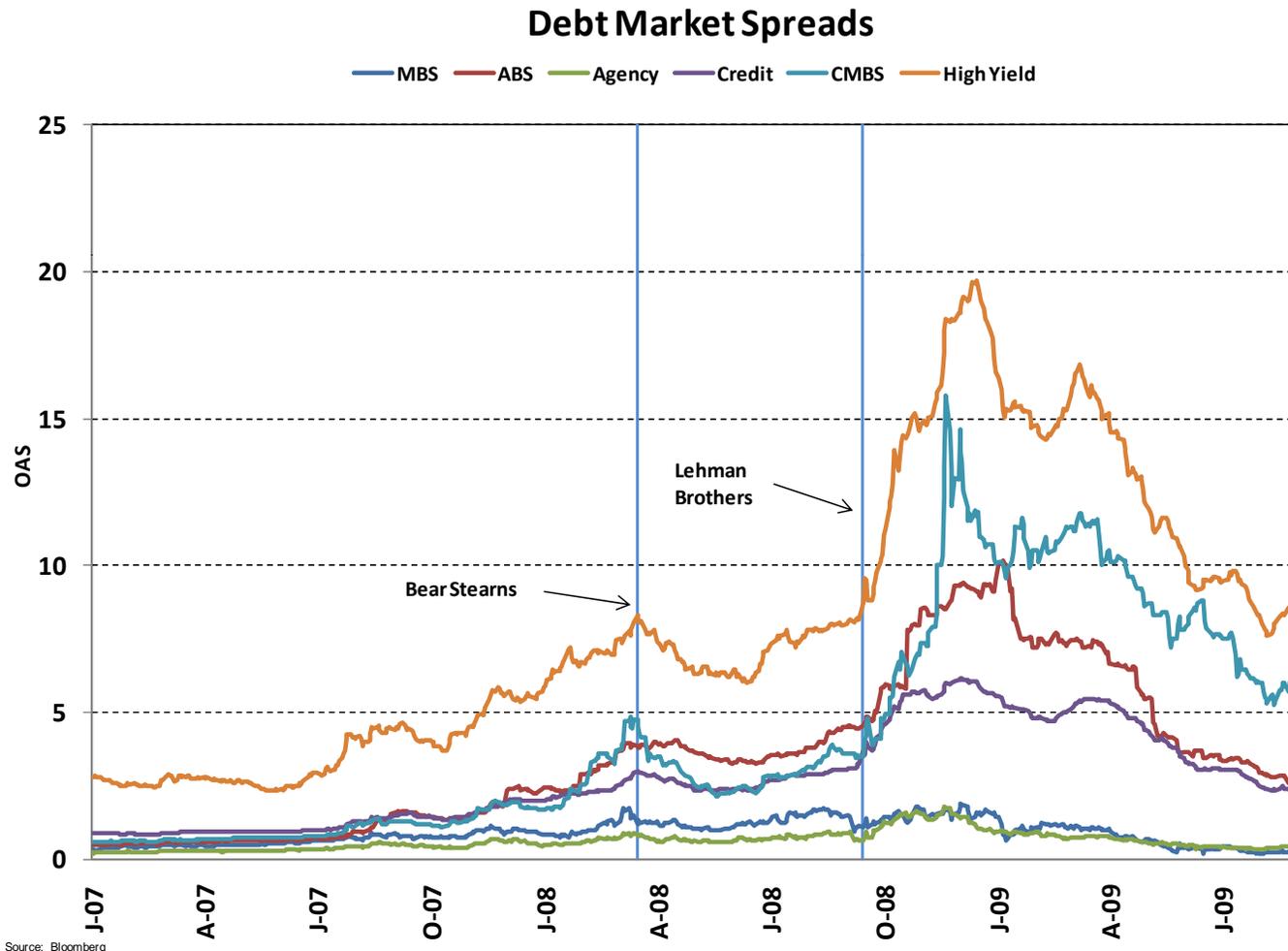


# Cash Flow Projection – 10 Years

Cash Flow Projection - 10 Years (in millions)



# Current Market Conditions: Credit Markets Are Healing



# Looking Ahead

- De-leveraging will continue.
- Economic growth will be slower than we are accustomed to.
- Government policy will be critically important:
  1. Monetary Policy
  2. Fiscal Policy
- VRS will continue to invest opportunistically.

# Administration

*Robert Schultze*  
*Director*



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# Rate Setting and Funding Benefits

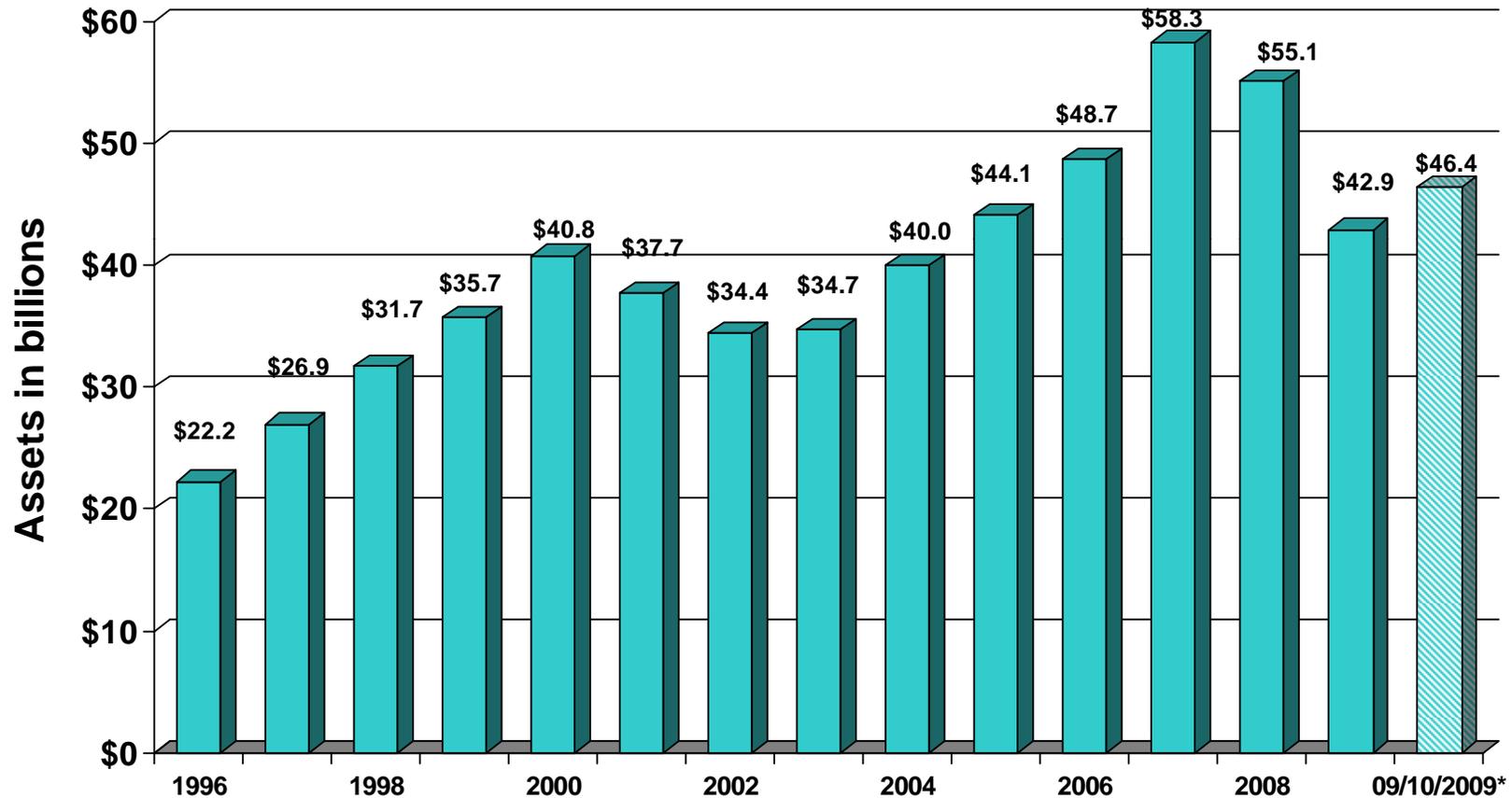


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# Funding VRS Benefits

- 68% of benefit costs funded by investment earnings
- 32% of benefit costs funded by employee/employer contributions

# Net Assets Available for Benefits



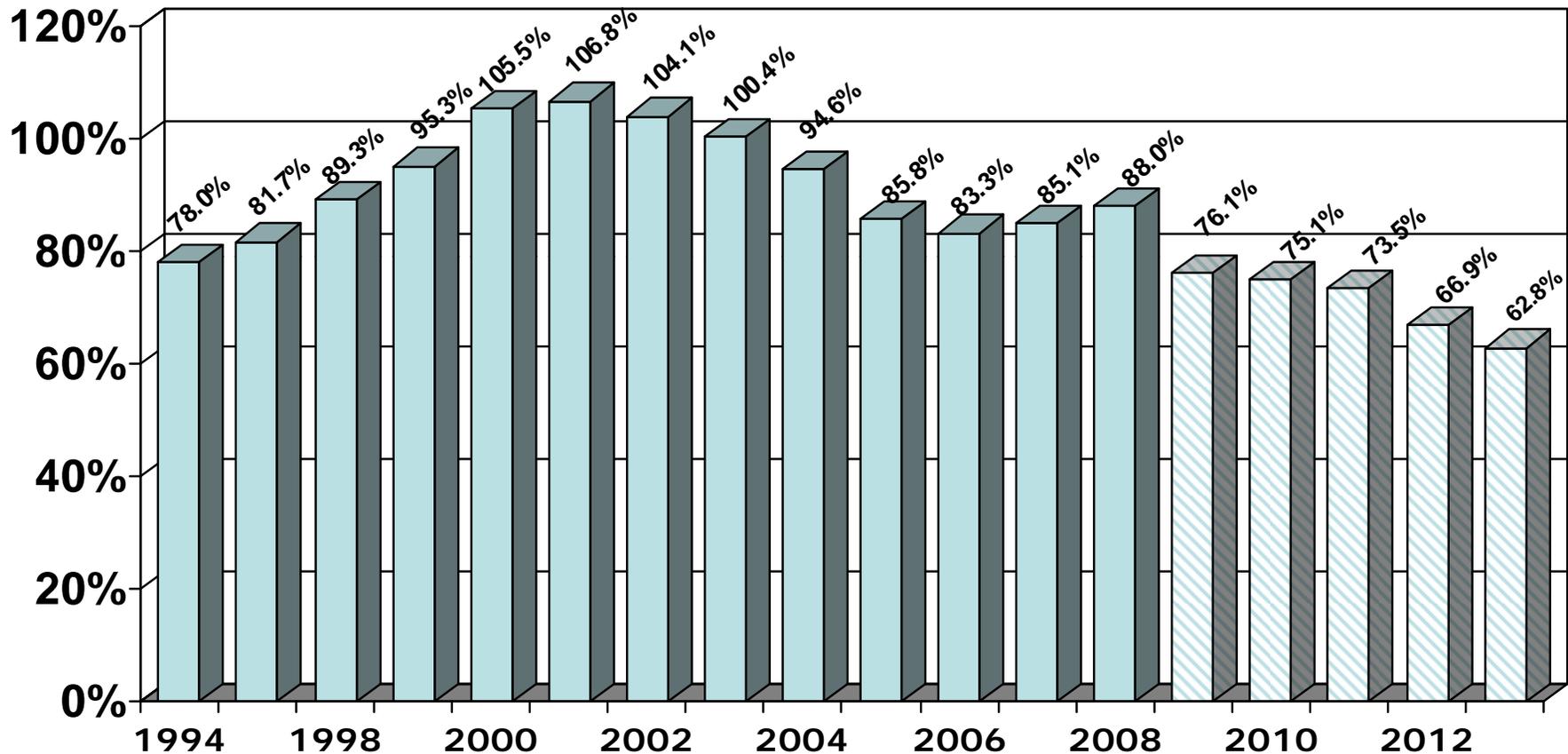
\* Estimate as of 9-10-09



# Funded Status

- Compares assets available to pay benefits with present value of future liabilities
- Asset/liability ratio is typical measure
- Percentage of assets available to pay present value of all future liabilities (until the last member of the plan dies)

# Funded Status: State Employees

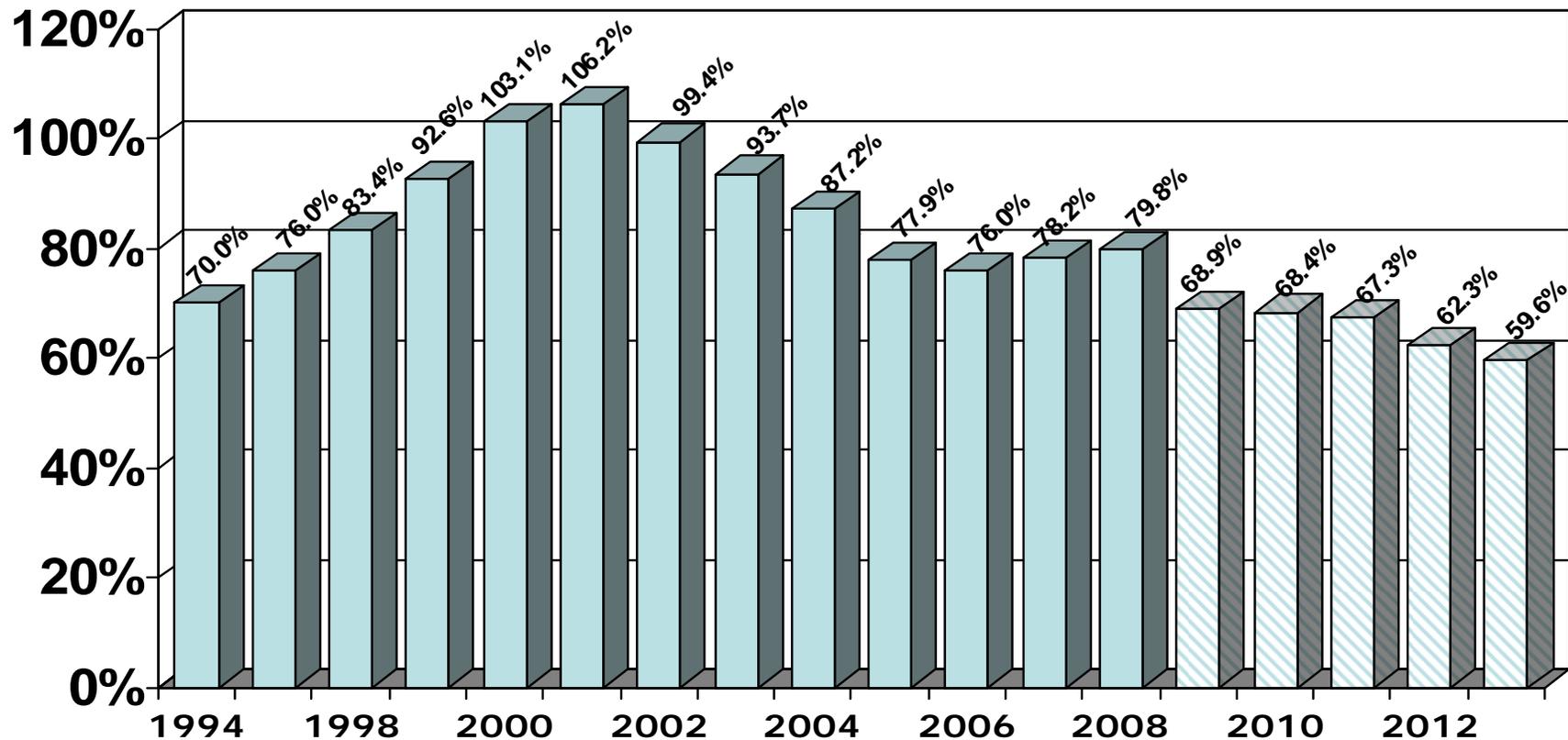


Assumptions:

- FY 2009 investment return is -21.1%.
- All projected years investment return is 7.5% and 2.5% inflation rate.
- Employer contribution rates for fiscal year 2009 is fixed at 6.23% and for 2010 at 6.26% for state employees.



# Funded Status: Teachers

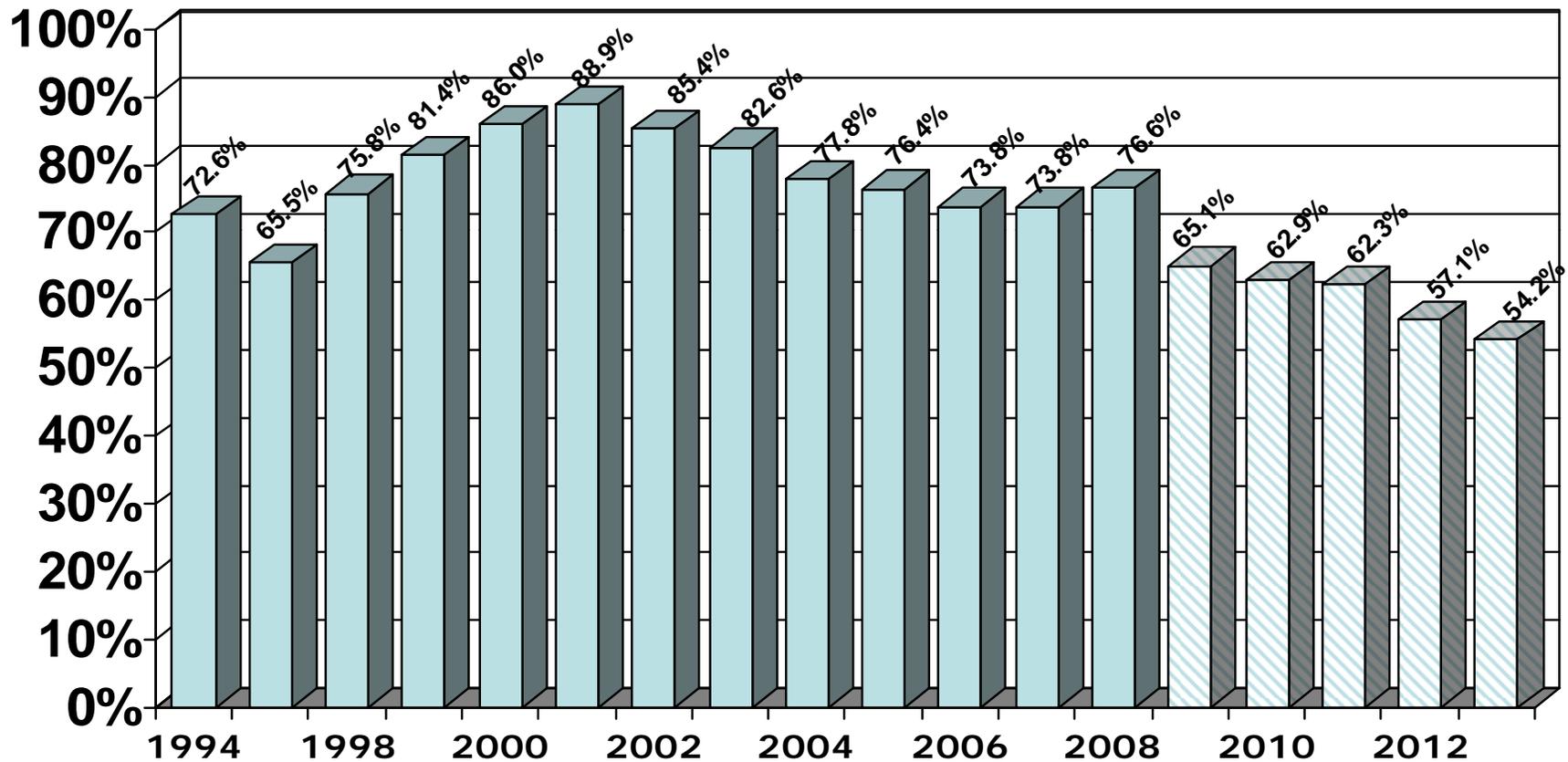


**Assumptions:**

- FY 2009 investment return is -21.1%.
- All projected years investment return is 7.5% and 2.5% inflation rate.
- Employer contribution rates for fiscal years 2009 and 2010 are fixed at 8.81% for teachers.



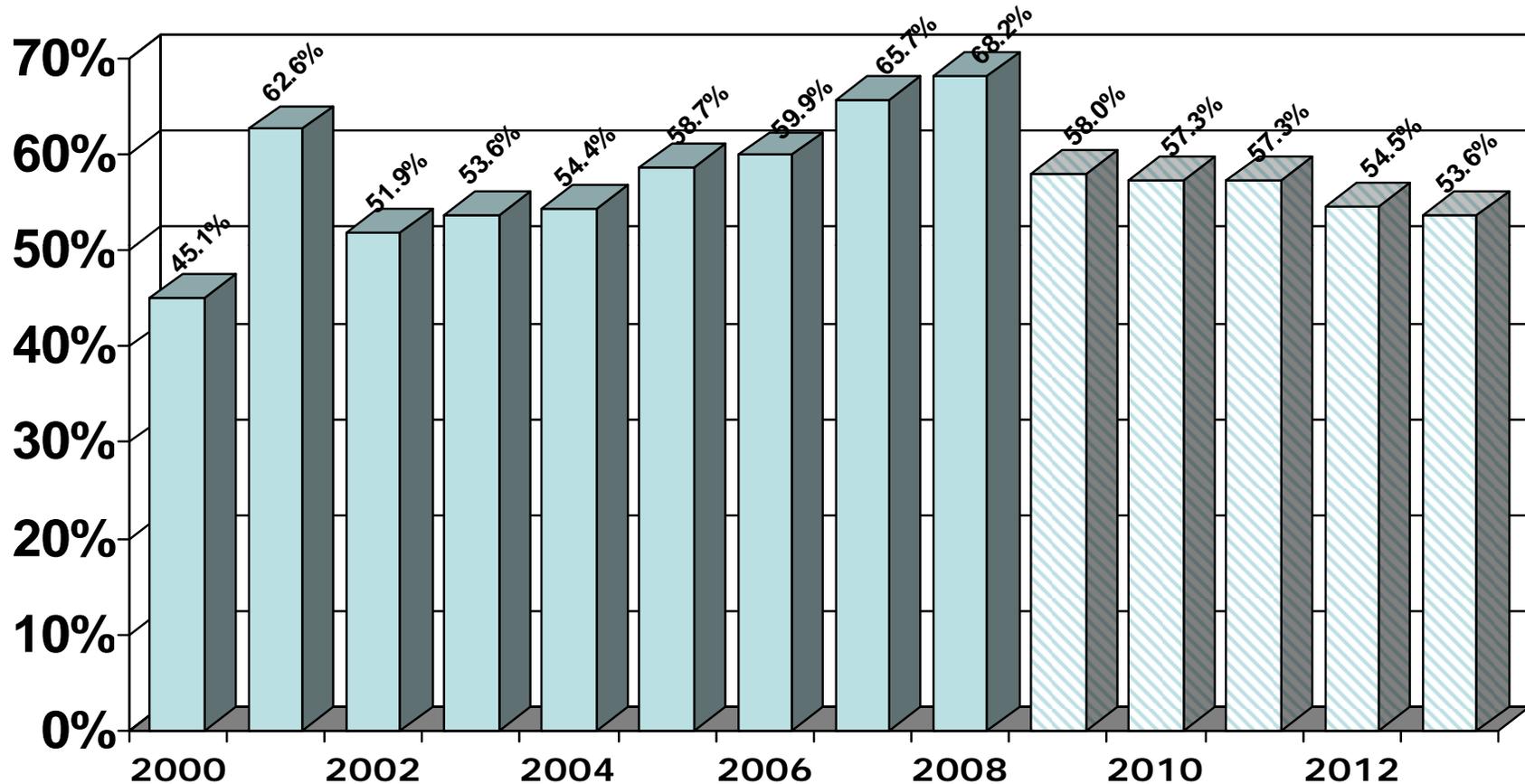
# Funded Status: State Police



Assumptions:

- FY 2009 investment return is -21.1%.
- All projected years investment return is 7.5% and 2.5% inflation rate.
- Employer contribution rates for fiscal years 2009 and 2010 are fixed at 20.05% for SPORS.

# Funded Status: VaLORS

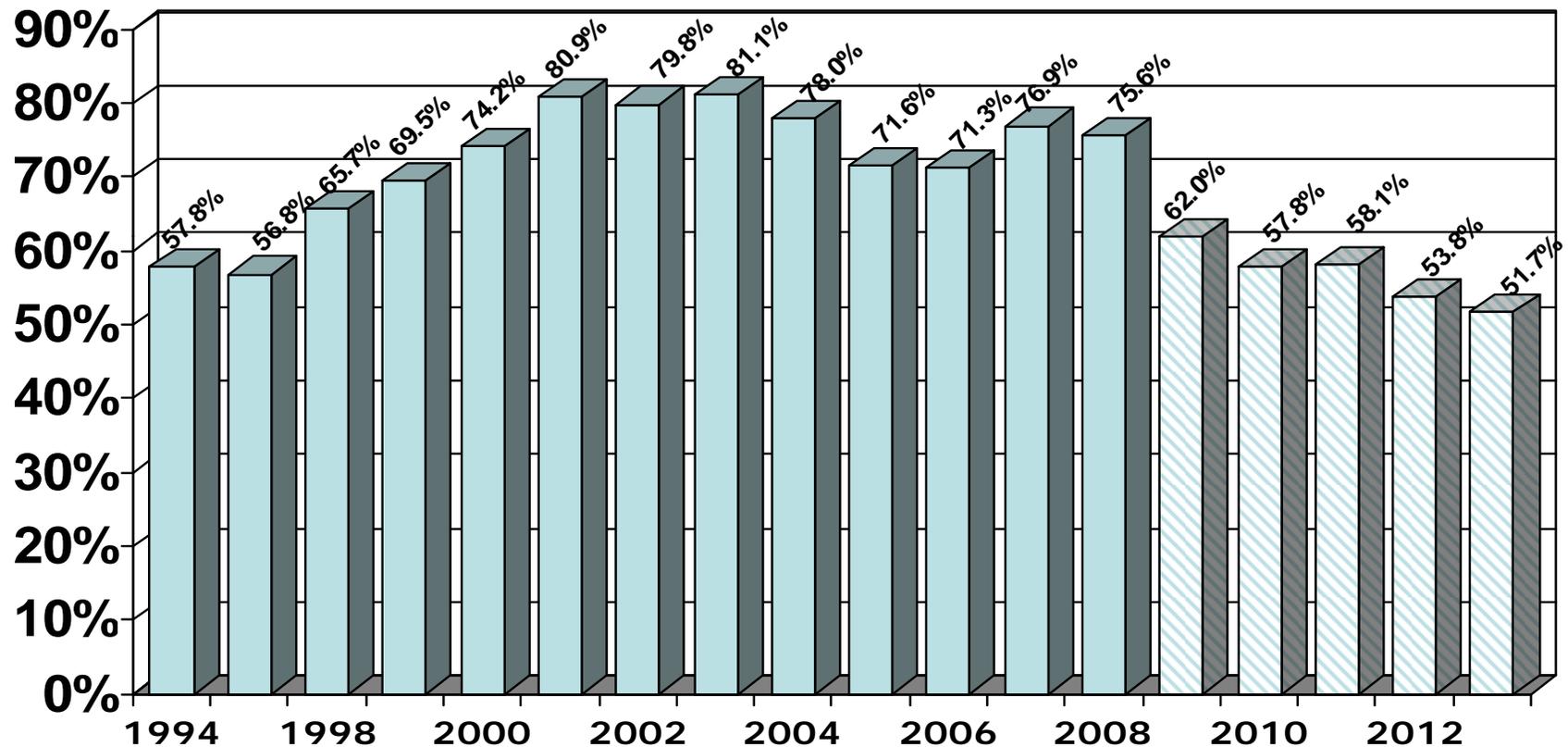


Assumptions:

- FY 2009 investment return is -21.1%.
- All projected years investment return is 7.5% and 2.5% inflation rate.
- Employer contribution rates for fiscal years 2009 and 2010 are fixed at 14.23% for VaLORS.



# Funded Status: JRS



Assumptions:

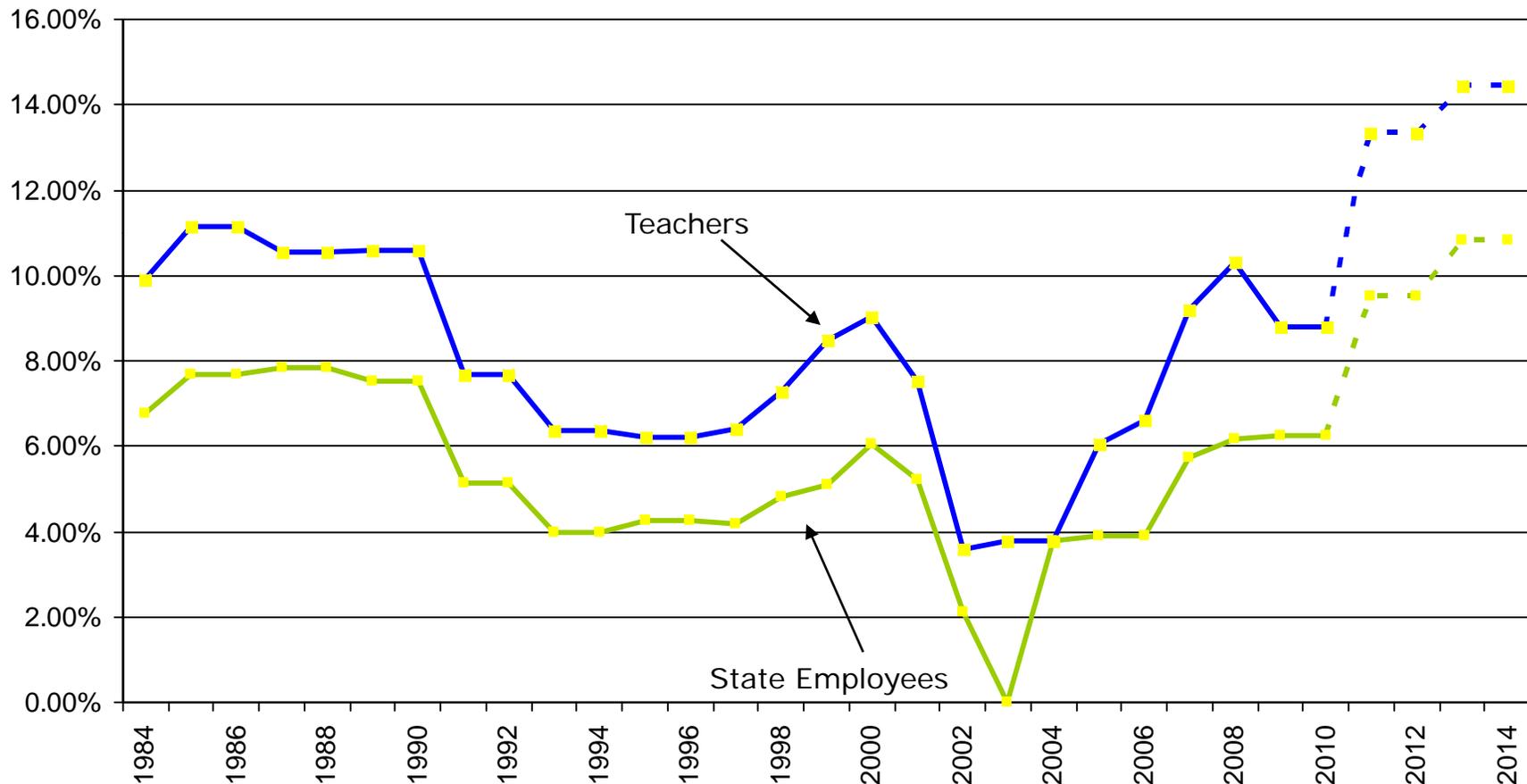
- FY 2009 investment return is -21.1%.
- All projected years investment return is 7.5% and 2.5% inflation rate.
- Employer contribution rates for fiscal years 2009 and 2010 are fixed at 34.51% for JRS.

# Projected Contribution Rates



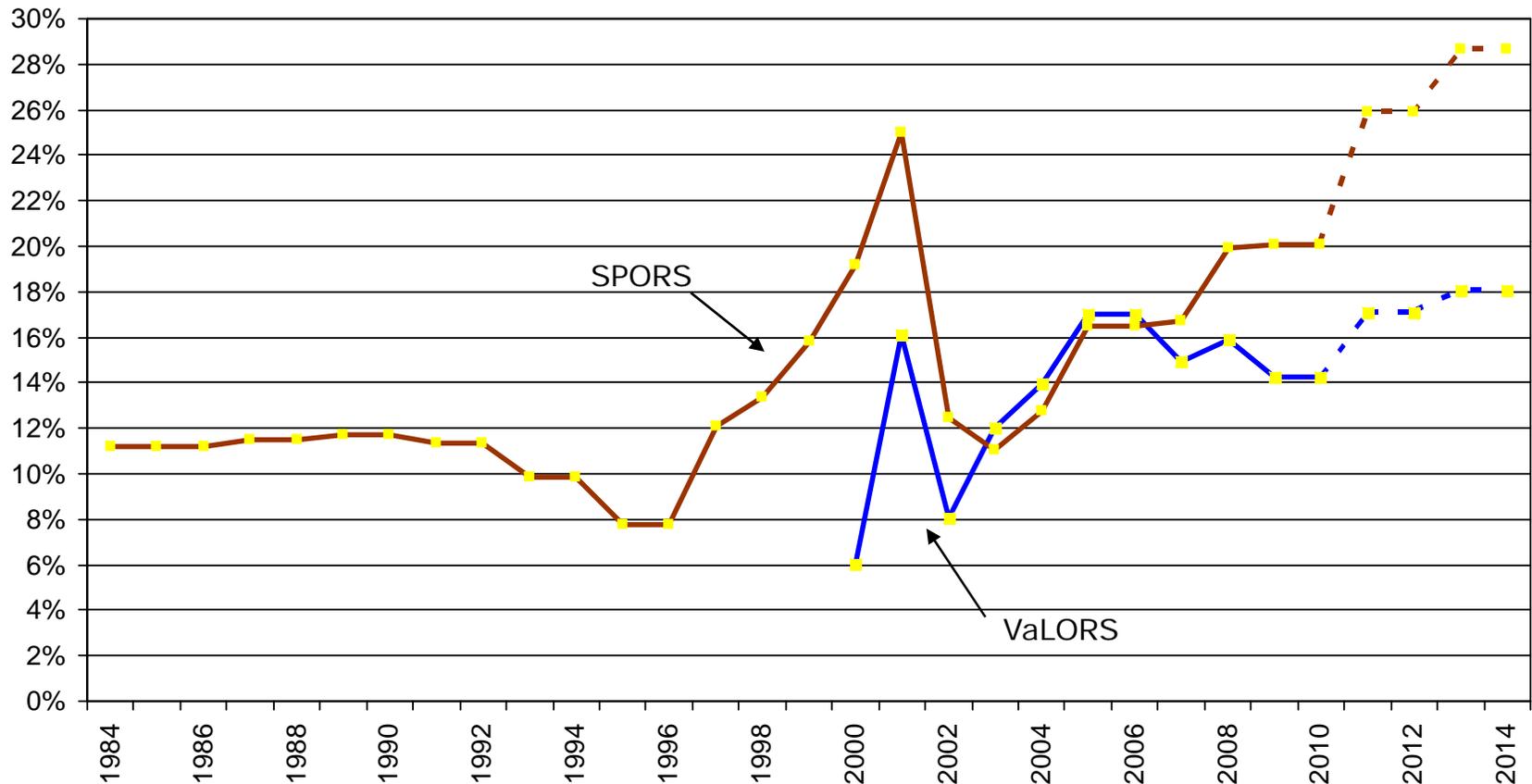
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# Teacher and State Contribution Rates FY '84 – '14



- Projected rates are based on an 8% rate of return, a 3% inflation rate and a 30-year amortization.
- These employer rates do not include the 5% member contributions that are also paid by employers.

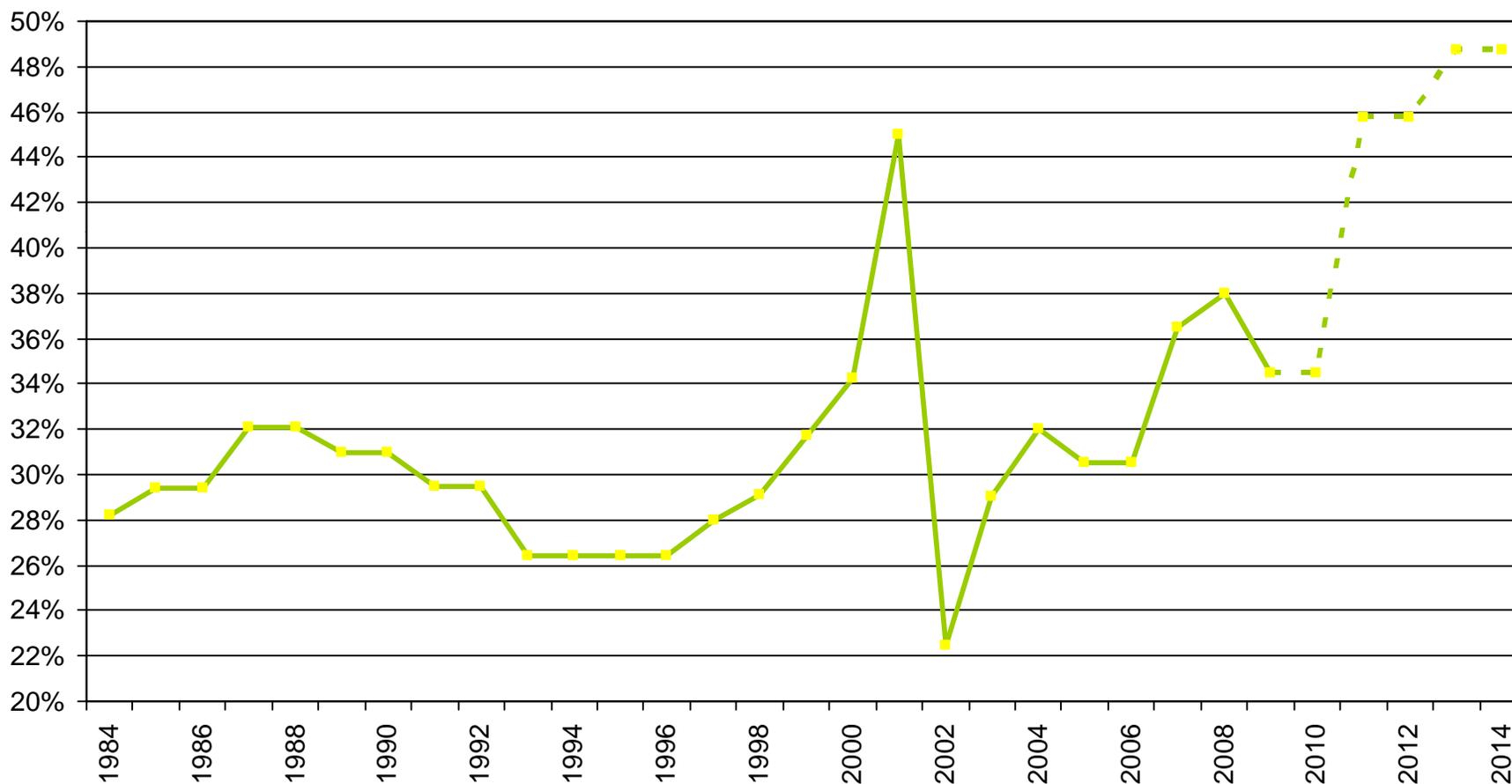
# VaLORS, SPORS Contribution Rates FY '84 – '14



- Projected rates are based on an 8% rate of return, a 3% inflation rate and a 30-year amortization.
- These employer rates do not include the 5% member contributions that are also paid by employers.



# JRS Contribution Rates FY '84 – '14



- Projected rates are based on an 8% rate of return, a 3% inflation rate and a 30-year amortization.
- These employer rates do not include the 5% member contributions that are also paid by employers.



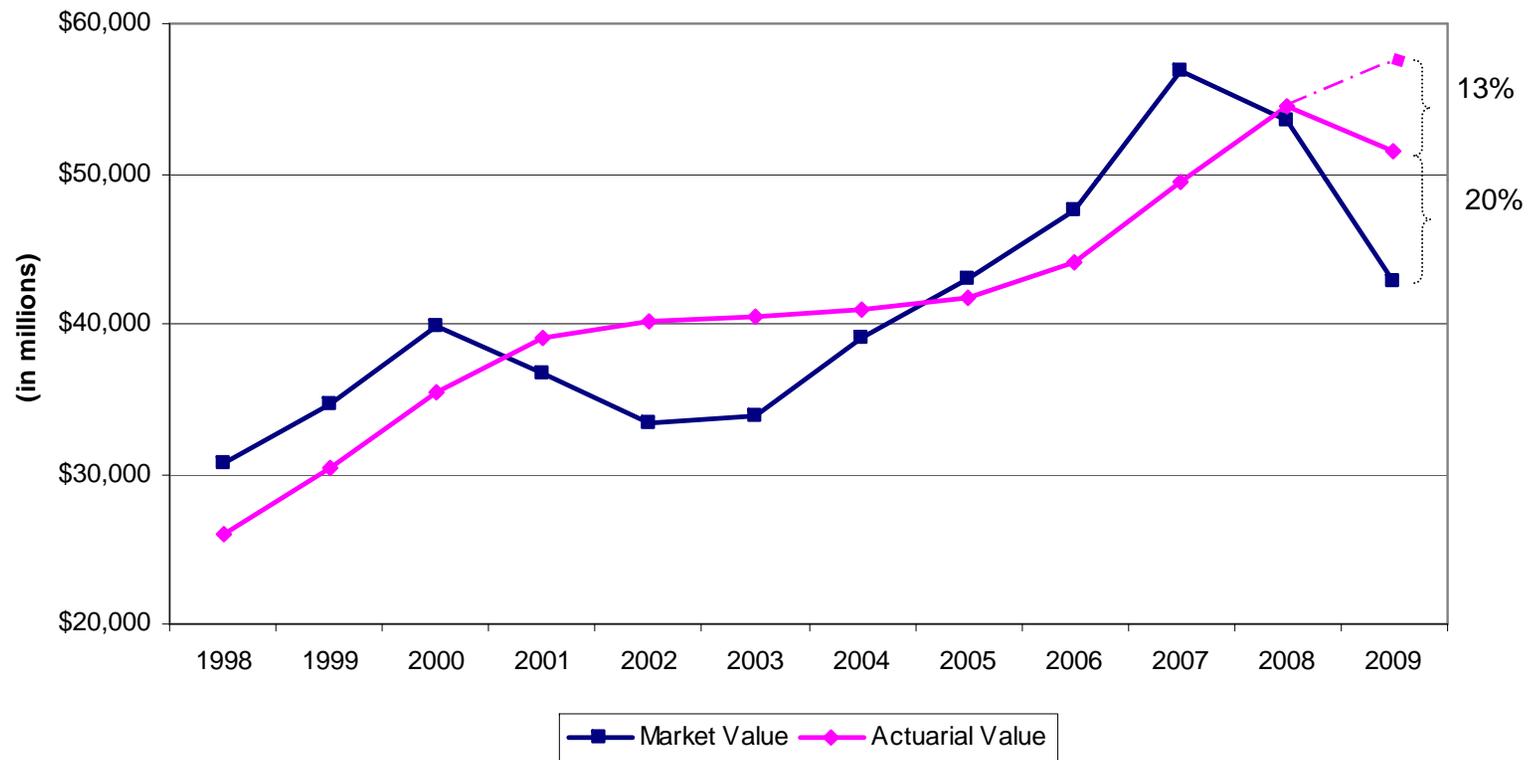
# Projected Employer Contribution Rates

	Current Rates* FY 2010	Projected Rates* FY 2010-12	Potential Annual Cost Increase	Estimated General Fund Portion
<b>State Employee</b>	6.26%	9.51%	\$142.7 million	\$69.2 million
<b>Teacher</b>	8.81%	13.33%	\$374.7 million	\$147.3 million
<b>VaLORS</b>	14.23%	17.11%	\$13.6 million	\$12.6 million
<b>SPORS</b>	20.05%	25.93%	\$7.6 million	\$6.5 million
<b>JRS</b>	34.51%	45.71%	\$8.3 million	\$8.3 million
<b>Total</b>			<b>\$546.9 million</b>	<b>\$243.9 million</b>

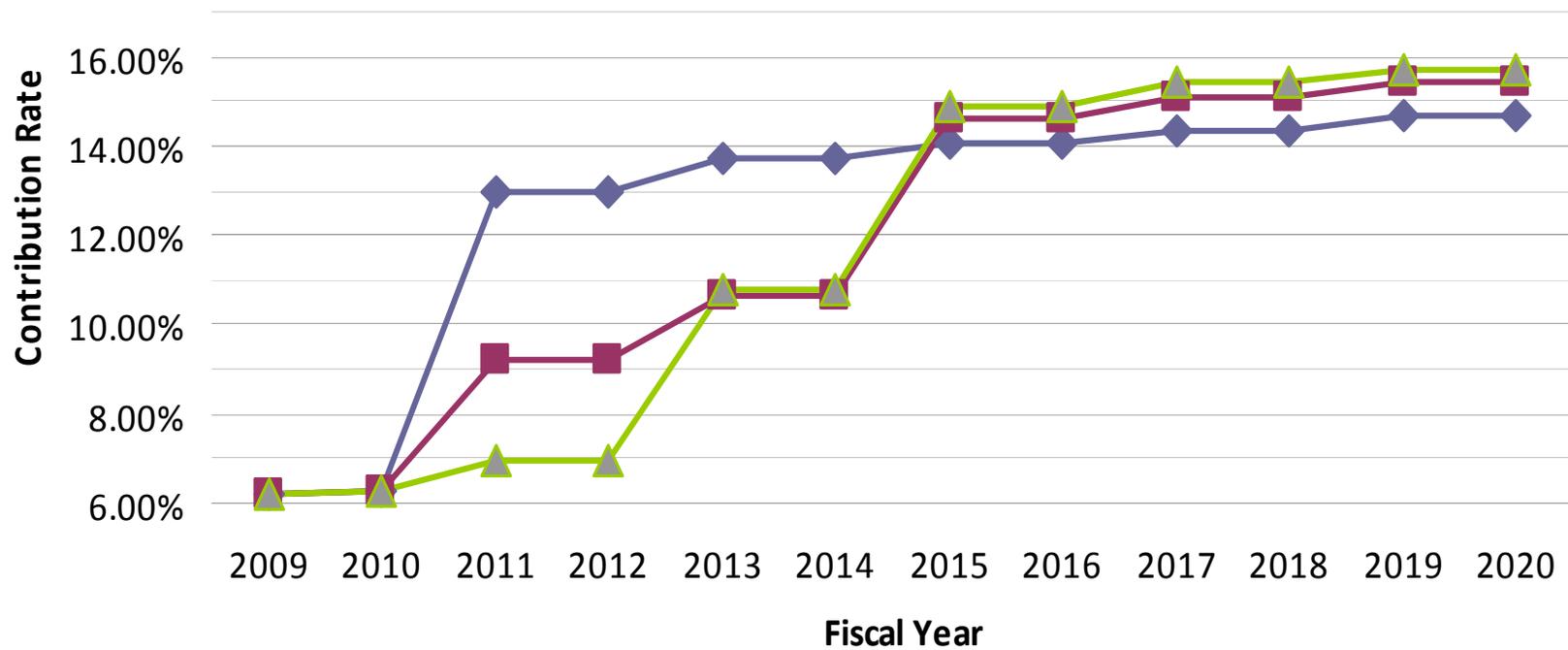
\*Current and projected rates are based on assumptions applied in the 2009 Appropriations Act (8% rate of return, 3% inflation rate, and a 30-year amortization). Board requested rates will be based on the following assumptions (7.5% rate of return, 2.5% inflation rate, and a 20 year amortization period), and will likely be higher.

- FY 2009 investment return is -21.1%.
- These employer rates do not include the 5% member contributions that are also paid by employers.

# Asset Smoothing: Market vs. Actuarial Value of Assets

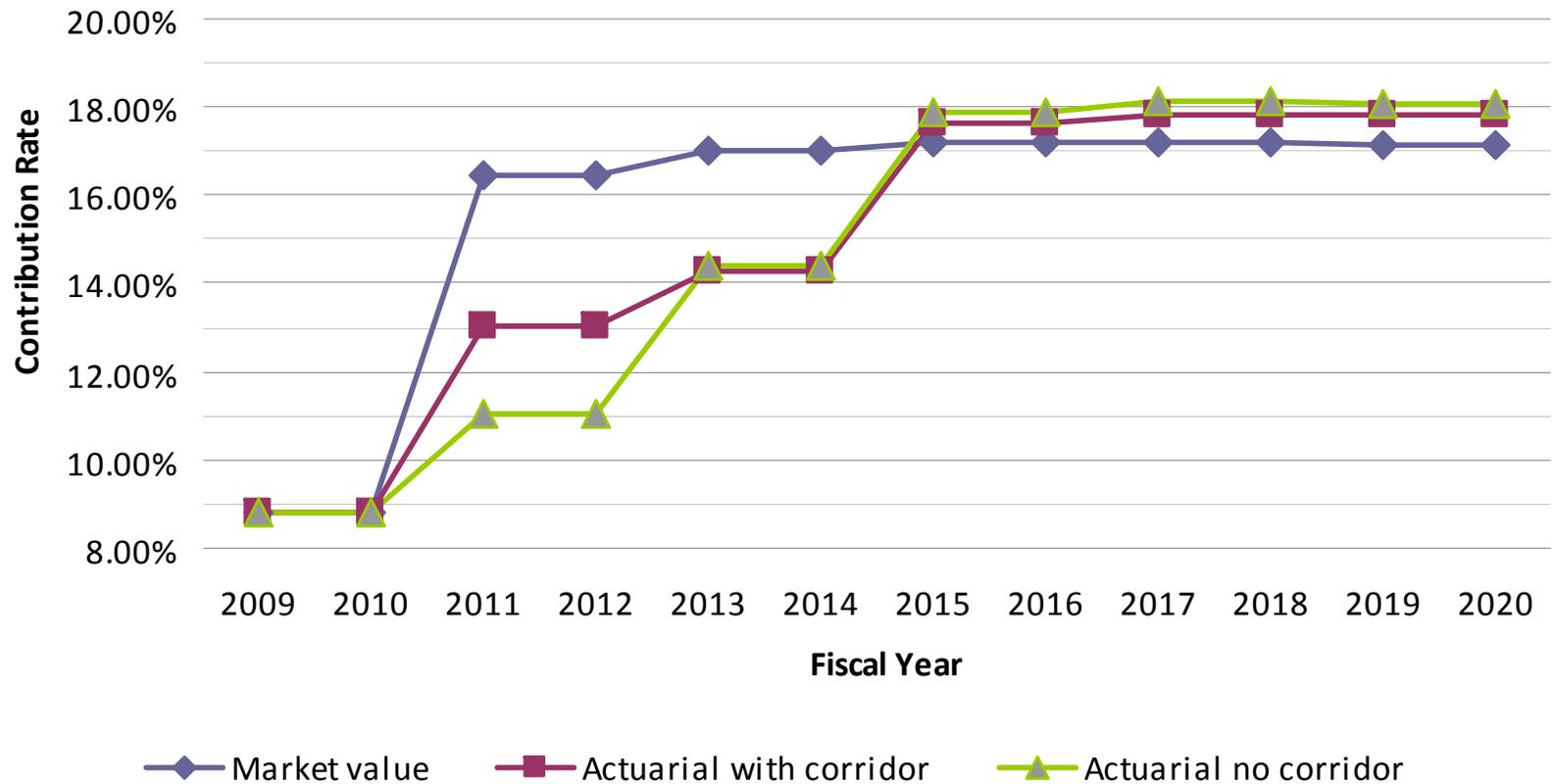


# VRS State Projected Contribution Rates - Alternative Assumptions & Asset Methods



◆ Market value     
 ■ Actuarial with corridor     
 ▲ Actuarial no corridor

# VRS Teachers Projected Contribution Rates - Alternative Assumptions & Asset Methods



# Member Contributions



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# Employee-paid Member Contributions

<p style="text-align: center;"><u>Method 1</u></p> <p style="text-align: center;"><b>Addition to Current 5% Member Contribution</b></p>	<p style="text-align: center;"><u>Method 2</u></p> <p style="text-align: center;"><b>Subtraction from Current 5% Member Contribution</b></p>
Employers continue to pay current 5% contribution	Repeal all or a portion of the current 5% member contribution paid by employers
Members pay new additional 2% contribution	Employees pay 2%, for example, of the current 5%
5% (current) + 2% (new) = 7% (total member contribution)	5% (current member) – 2% (paid by employee) = 3% (balance paid by employer)
7% total member contribution deposited into member account (5% paid by employers)	5% deposited into member contribution accounts, but only 3% paid by employers
7% subject to refund upon termination	5% remains subject to refund upon termination

Questions?



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